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The Honorable Daniel R. Elliott III Chairman Surface Transportation Board 395 E Street, SW Washington, DC 20423

Subject: End of Year 2012 Railroad Service Outlook

Dear Chairman Elliott:

Thank you for your letter of June 8, 2012 regarding Canadian Pacific's ("CP's") plans for responding to the demand for U.S. rail service during the balance of 2012.

While traffic has rebounded, we continue to experience both uncertainty in the economic climate and volatility in volumes tendered for movement. However, with the initiatives, investments and ongoing business processes described below, CP is well-positioned to handle increased traffic volumes safely and efficiently.

CP values its customers' business, and we strive to be an effective partner in their efforts to grow. We work closely with our customers on a daily basis to understand their requirements, adjust our services to meet those requirements, and to develop accurate traffic forecasts. We encourage and facilitate demand leveling in order to balance daily workloads throughout the supply chain and reduce the potential for congestion not only on our railroad, but at ports and terminals as well. Continuous customer communication is the foundation upon which CP's Integrated Operating Plan ("IOP") is built.

CP responds as follows to the specific questions set forth in your letter:

1. Expectations for any seasonal peaks in carload and both domestic and international intermodal traffic.

The view below is based on our interpretation of the global macro-economic conditions and does not anticipate any major economic shocks. What we do know is that there are a number of significant global economic uncertainties around Europe in particular but also China and this creates risks that could substantially change the actual demand we experience.

Looking at our bulk commodities, our US grain demand has experienced considerable weakness both due to poor wheat production in North Dakota as well as weak export demand for corn and soybeans. As we look forward, we believe that the current crop prospects are for an improved harvest versus last year and this would suggest an increase to our fall and 2013 demand to more normal levels – depending on the global demand. Our coal demand is predominately Canadian originated volumes of metallurgical coal for export and the demand continues to be solid in this area and should continue to be through the balance of the year. In fertilizers and sulphur, we estimate volumes to be to be in line with 2011.

In our intermodal business, we expect above GDP growth from both modest economic growth as well as from initiatives resulting in share improvement versus 2011. The seasonality will be consistent with past year.

In our merchandise segment, we expect continuing strong volumes driven by energy-related demand growth. Energy-related demand is driving both inputs such as frac sand as well as the movement of production, in particular crude oil. In the automotive area, we have seen strong auto sales support demand; we will lap the impacts of the 2011 Tsunami and Thai flooding resulting in solid year over year increases in volumes. We would expect growth in our other carload sectors in line with economic activity.

2. Resources to meet any upticks in volume, including a discussion of freight car, locomotive, and labour (train crew availability).

CP works diligently on an ongoing basis to deliver efficient and reliable service to our customers. Demand planning is a core business process at CP, and plays an important role in our success in responding to seasonal fluctuations in traffic. Overall, responsibility for demand planning is exercised by a cross-functional team that integrates current and forecast demand information with our service planning in order to ensure that all elements of the capacity equation – including cars, locomotives, crews, interline connections, terminals, and yards – are properly aligned.

CP develops an annual demand outlook, by commodity and business sector, to provide a foundation for the base service plan and estimated resource requirements for the following calendar year. Those annual forecasts are updated monthly during the year, allowing us to make proactive adjustments to our service plan as necessary.

Direct customer input is a critical component of CP's demand planning process. CP meets regularly with key customers to ascertain their views regarding demand, volume flows and market risks. When unforeseen changes in demand occur, we convene daily calls with key customers and port facilities to discuss those events and to determine whether adjustments may be required to maintain efficient and fluid operations. CP participates regularly in customer and commodity group conferences to review and validate demand projections.

CP also conducts independent internal analyses to enhance our understanding of key demand drivers and to validate short and long-term forecasts. To support those efforts, we have implemented a sophisticated forecasting system that takes into account macro-economic factors by industry segment to project demand by specific origin-destination pairs. This supports the granularity required to design and execute both our service and resource planning processes. Our Marketing and Operations teams meet regularly to review changes in demand and develop an appropriate response to such changes. CP will continue to utilize these ongoing business processes to match demand with appropriate resources; develop a deliverable service plan that reflects both available resources and realistic performance targets; and adjust our IOP to serve our customers safely and efficiently. As such, we believe we have the necessary freight car, locomotives, and labour required to meet the expected demand plan.

3. Specific plans to support demands for prompt movement of finished autos and light trucks.

We believe that continued tuning of our operating plan for traffic flow changes and the placement of a dedicated representative within the Chicago interchange facility will further enhance the overall resiliency of this important railway interchange for finished autos and light trucks. CP continues to support both the Chicago Transportation Coordination Office (CTCO) and the Chicago Planning Group (CPG) in their efforts to streamline information exchange and coordination of operations. CP is also expected to spend \$10 million in Illinois in 2012 as part of its commitment to the CREATE program specifically aimed at alleviating rail traffic congestion in Chicago.

CP continues to support blocking our in-bound auto trains to the IHB at Gibson to facilitate expeditious flow through the Chicago area. CP is also exploring alternative interchange points, such as Kansas City, to improve both loaded and empty transit times. We continue to invest and are rebuilding and recertifying a large portion of our multi-level automotive railcars in order to improve service to the automotive industry in both Canada and the United States. In addition, CP will also start to take delivery of 170 new multi-levels between 2012 and 2013.

4. Specific plans to support demands for movement of crude oil and of oil and gas drilling activity.

CP continues to pursue projects to improve throughput and fluidity at several locations that support our U.S. Grain exports, Ethanol and Bakken volume growth and cross-border trade routes. In the energy sector, back in March of 2011, CP announced the investment of \$100 million in North Dakota between 2010 and 2012. The investment plan will allow CP to expand network capacity and enhance rail service in order to meet increased traffic demands.

CP's 2011 North Dakota operations plan included hiring over 70 new employees to expand CP's train crew base, thereby, growing CP's workforce in North Dakota by 18 per cent; capacity expansion on the Newtown, Portal and Carrington subdivisions including yard track extensions in Max and Flaxton; increased budget for maintenance work on the Newtown subdivision; and strategic installation of snow fence and grading projects to reduce winter snow drifting between Drake and Max.

In 2012, CP is expected to spend an additional \$19 million to support incremental crude oil and frac sand traffic originating in North Dakota, Minnesota and Wisconsin. Key initiatives included in this plan are: new siding and yard improvements at Drake which will increase capacity and improve fluidity of crude traffic destined to Albany; track extensions at Max Yard to improve capacity and fluidity of traffic; a communication tower and additional hot box detector (HBD) will be installed to allow for safe, fluid movement of multiple demand trains over the subdivision; Colonie Yard expansion near Albany to serve crude oil shipments; and a new siding on the Estevan subdivision which will increase capacity.

CP is preparing plans now for 2013 and beyond in the likely event that Bakken related traffic continues to grow.

5. A summary of the investments made in freight service and capacity improvements for the past year as well as areas of existing or anticipated rail traffic congestion and your plans for remediation.

CP's annual capital program typically includes investments in track and roadway (including rail yards, bridges, and signals), buildings, rolling stock including freight cars & locomotives; information technology; and terminals and other equipment. CP invested approximately \$3.4 billion in our core assets between 2008 and 2011, with annual cash capital spending over this period averaging approximately 17.1 percent of revenues. Those investments included approximately \$2.5 billion for track and roadway of which \$238 million related to capacity projects on various segments of CP's Core Network; \$141 million for new locomotives; \$53 million on programs to rejuvenate its Freight Car fleet; \$240 million for information technology; and \$27 million for Terminal and other equipment. Total capital investments for 2012 are expected to be in the range of \$1.1 billion to \$1.2 billion on a cash basis across its North American network. CP expects approximately \$304 million of its total Capital Program will be invested on its rail network located in the United States.

In 2011, CP took delivery of 61 new high horse power GE Evolution (EVO) Series AC locomotives and an additional 30 in Q1 2012. These new EVO locomotives will increase capacity, enhance service reliability, further the company's long train strategy, reduce emissions, and contribute to the company's 1–2% annual fuel efficiency improvement target.

Through Progress Rail Services' Electro-Motive Diesel (EMD) subsidiary, CP has also begun to modernize a portion of its low and medium-horsepower locomotive fleet. The remanufacture of these locomotives will take place over the next several years to support yard fluidity and dwell reduction goals, improve fuel efficiency, reduce maintenance costs, and comply with 2015 Tier 4 emissions standards.

In summary, CP is committed to making investments where such expenditures are economically justified and to relentlessly pursue ways to increase effective capacity by optimizing the utilization of existing resources.

A strong and vibrant North American economy requires a safe and efficient freight rail transportation system. Legislative and regulatory certainty that is conducive to investment is critical to enable CP and other carriers to meet the future needs of shippers.

6. Developments in passenger rail service access (Amtrak, Commuter or high-speed rail) and related on-time performance.

CP is cooperating with the State of Wisconsin, Amtrak, Talgo America, and the Federal Railroad Administration to commission new Talgo passenger coaches and cab cars on CP between Milwaukee, Wisconsin and Rondout, Illinois commencing later in 2012. The State of Wisconsin has withdrawn funds to construct a maintenance facility to maintain the Talgo equipment and so it is currently uncertain if Amtrak will operate this equipment in Chicago – Milwaukee service. CP is a participant with passenger rail investment projects that are funded pursuant by federal funding that is channeled through State Departments of Transportation.

In Wisconsin, CP is installing crossovers, hot-box detector set-off tracks, updated hot-box detector electronics, and other improvements on its line between Milwaukee and the Illinois/Wisconsin border. The new crossovers are expected to be placed in service in July 2012 with other improvements completed in early 2013. The State of Illinois is participating with CP on 50-50 funding of replacement of two double track bridges near Wadsworth, Illinois. Design of the new bridges is complete and construction will commence in autumn 2012. The above two investment are designed to improve reliability on CP's main track route that hosts the operation of sixteen daily Amtrak trains.

CP is participating with Ramsey County, Minnesota, Amtrak, BNSF, and UP in design and construction of new connecting tracks to the Union Depot at St Paul which is being revitalized as a transit center at St. Paul. The tracks will accommodate a new stop for Amtrak's Empire Builder service at St. Paul. CP has also participated with Ramsay County and its consultants on a design study to improve throughput at the busy Hoffman Avenue Junction, St. Paul to handle burgeoning volumes of freight and to accommodate visions for future passenger rail operation. CP worked with Ramsay County and the State of Minnesota in submission of a TIGER grant application to fund construction of the proposed improvements. This junction handles 5% of America's rail commerce.

In New York State, CP will construct 2.2 miles of second main track connecting Ballston Spa Siding and Saratoga Springs Yard. This investment will assist with segregating freight and passenger flows train to improve reliability for four daily Amtrak trains. This project is designed and materials have been ordered, however, construction is awaiting issuance of an Army Corps of Engineers permit. The inservice date of this project has been delayed to 2013 as a result.

And finally, CP is participating with addition by Amtrak of Americans with Disability Act (ADA) improvements at stations on CP lines in New York, Wisconsin, Illinois, and Minnesota.

Amtrak end-to-end on time performance of trains hosted on CP for the last twelve months is Ethan Allen 76%, Adirondack 85%, Hiawatha 93%, and Empire Builder 76%. CP is committed to working with all stakeholders to continuously improve the performance of passenger trains operating on CP lines.

7. A report on your company's most recent customer service survey.

In 2011, CP further formalized its customer feedback program by capturing detailed feedback from over 330 shippers and receivers through a proactive telephone survey methodology. This valued information is being used to both tactically address concerns and ensure appropriate alignment and prioritization of CP's strategic improvement initiatives. Within this customer base, a material number of respondents noted an improvement in satisfaction over the past twelve months, especially within the Intermodal segment where over 70% provided a satisfied rating.

While opportunities to further improve exist there was clear alignment with CP already progressing several programs in areas such as increased and improved communications, local service consistency, and enhanced online tools. An example of this is, CP's first/last mile reliability program which continues to be rolled out across the network and has dramatically reduced dwell but is also being recognized by our customers for improving service reliability. CP will be launching its next phase of its survey program this summer and intends to use this mechanism to ensure appropriate trending and improvement alignment.

8. Conclusion

CP establishes a variety of performance goals that are designed to improve service reliability, system fluidity, and maximize peak throughput capabilities. CP's IOP is built on the core design principles of velocity, balance, and network. We believe that by adhering to those principles, CP can deliver more consistent services from the planning stage through execution. Adherence to our core principles and a strong emphasis on operational excellence, has enabled CP to achieve substantial improvements in both safety and service performance over the past several years.

CP is investing with our customers for service reliability and productivity to further drive future growth. We are well-positioned to handle forecast demand while, at the same time, contributing to improvements in the overall supply chain by reducing dwell and maximizing throughput. Our commitment is to provide the products and services that will enable our customers to grow their businesses at home and globally.

Sincerely,

Mike Franczak

Executive Vice-President and Chief Operations Officer

cc: The Honorable Francis P. Mulvey, Vice Chairman

The Honorable Ann D. Begeman, Commissioner

Mr. Edward R. Hamberger, AAR

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